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Monthly Markets Mindshare – December 2015

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ASSET WATCH

- **Equities**

The global economy is experiencing a slow growth recovery, modest by levels evident pre-crisis and lower than the typical cyclical recovery. While periodic global growth concerns have been evident, recently highlighted by concerns over growth in China, growth in developed economies remains resilient. The global economy should continue to generate positive growth, leading to positive earnings growth. Global central banks remain supportive, committing to keep interest rates relatively low, facilitated by low levels of inflation. When rate tightening cycles finally begin in the US and UK, they are expected to be gradual. G4 (Eurozone, US, Japan, UK) central banks balance sheets are expanding more rapidly in 2015 than 2014 due to increased stimulus in Japan and the Eurozone. Valuations remain supportive of global equities, particularly relative to other assets, providing upside in equity markets. Mid single digit gains in equities are expected in 2016 with continued volatility likely to be evident as political events and economic and monetary developments give rise to fluctuations in markets from time to time.

- **Bonds**

While absolute levels of yields in core Eurozone markets are low, policy initiatives from the ECB, including the sovereign bond purchase programme, probably cap upside in core yields and support further narrowing of peripheral spreads in the medium term. The rise in Eurozone inflation in 2016 through base effects to close to 1% and the impact of rising rates in the US could result in slightly higher core yields and marginally negative returns in the > 5 year sovereign benchmark in 2016.

- **Property**

The Irish property market has been strong with activity at record levels, which are expected to remain high given the weight of buyer interest. Yields have compressed, led by offices and has been supported by the yield gap against bonds. Prime office yields are expected to begin to stabilise with further falls expected in the retail and industrial sectors. Rental growth has been strong in the office sector due to limited supply and is expected to continue while rental growth can recover in the retail and industrial sectors after recent signs of stabilisation. With an overall yield of close to 5%, low double digit returns pa are expected from Irish commercial property over the next two years.

- **Cash**

Cash returns are expected to remain low through 2016.

Market Developments in November

- **Global equities rose 0.4% (3.8% in €).** Global economic releases remained resilient with many key headline data points surprising positively
- **China - concerns over slower growth in China** continued to ease as economic data in China stabilised
- **U.S. -** The probability assigned to an interest rate rise by the U.S. Federal Reserve in December rose from 50% to 75% following a strong non-farm payroll release and statements from numerous Fed members suggesting a rate rise was likely. This was viewed as confirming the Fed's and investors' confidence in the U.S. economy
- **Eurozone > 5 year bonds rose 0.5%** given increased expectations of additional ECB asset purchases with German 10 year yields falling to 0.47%. European peripheral spreads narrowed with Italian and Spanish 10 year spreads against Germany falling to 85bps and 106bps respectively
- **Eurozone -** Rhetoric from the ECB remained dovish and if anything contributed to increased expectations regarding the level of additional easing measures expected to be announced in December. In addition to anticipations of increased levels of asset purchases by the ECB, expectations grew regarding the possibility of a further cut to the already negative deposit rate of -0.2% with a tiered system of rates possible, based on sums deposited by banks with the ECB
- **The Euro weakened to 1.056 against the US\$** as additional ECB stimulus was expected while the Fed was expected to raise interest rates in December
- **Commodities fell -7.5% (-3.3 in €)** as Brent oil fell -10.0% on a continued rise in global inventories



Market Performance

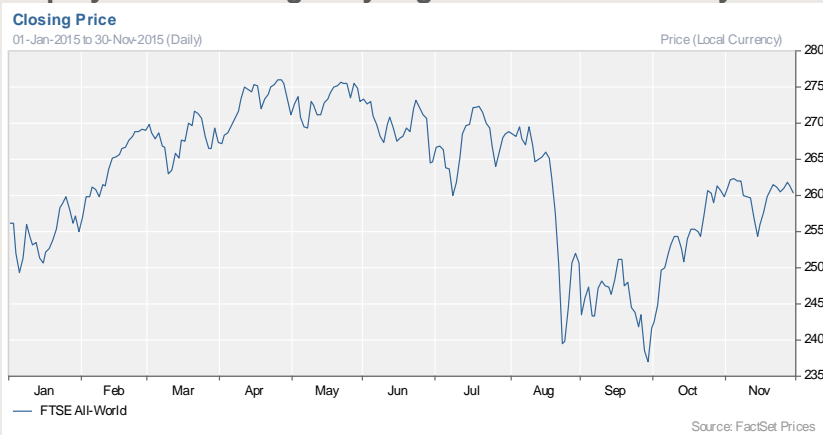
Markets In November

	Local Returns	Euro Return
Ireland	6.4	6.4
UK	0.5	2.4
US	0.3	4.9
North America	0.3	4.8
Europe	2.5	2.8
Japan	1.3	3.8
Pacific	-2.1	2.4
Emerging Markets	-2.7	0.5
World	0.4	3.8
EMU Govt Bonds >5yr	0.5	0.5
Commodities	-7.5	-3.3

Markets YTD

	Local Returns	Euro Return
Ireland	34.5	34.5
UK	0.9	11.6
US	2.8	17.8
North America	2.3	16.4
Europe	13.8	16.3
Japan	14.0	27.0
Pacific	-3.6	2.9
Emerging Markets	-4.4	0.0
World	4.0	14.6
EMU Govt Bonds >5yr	3.7	3.7
Commodities	-19.6	-7.9

Equity Markets Marginally Higher in Local Currency



Euro Weaker as ECB Set to Loosen and US Fed Tighten



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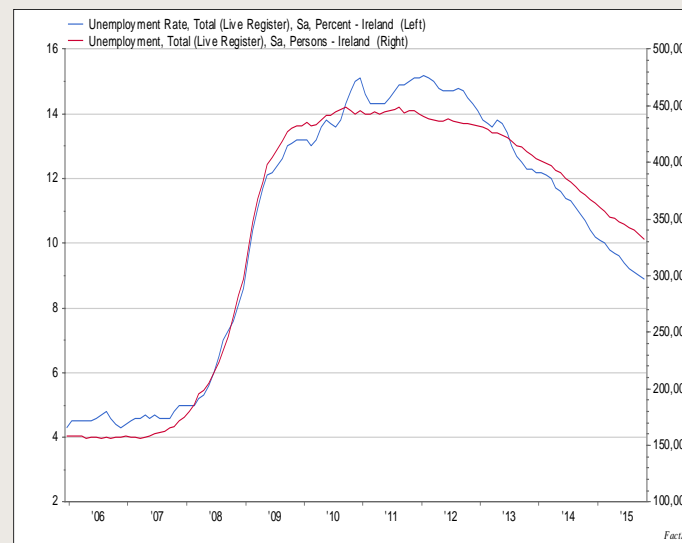


Economy in Focus - Ireland

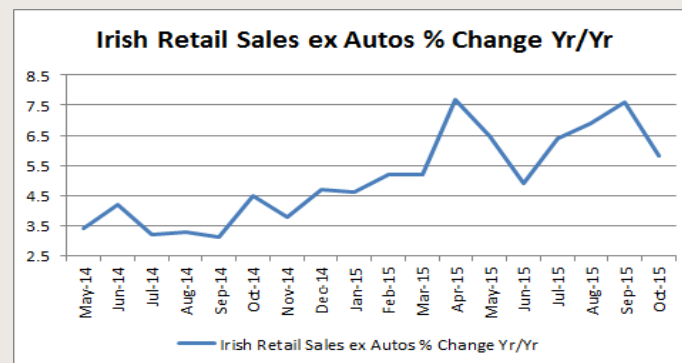
Economy

- Economic releases generally remained positive.
- Seasonally adjusted numbers on the Live Register fell 4,400 to 332,200. Unemployment fell 0.1% to 9.3%
- Numbers employed in the year to September rose 56,000 or 2.9% to 1,983,000, the highest level since Q1 2009
- Retail sales fell -0.8% m/m but were up 6.9% y/y; core sales ex autos fell -0.3% m/m but rose 5.8% y/y; consumer confidence rose 0.7 to 101.3
- Industrial production remains volatile, falling -2.4% m/m but was up 15.1% y/y
- The seasonally adjusted monthly trade surplus fell €252m to €3,338m with exports down -4.4% m/m and imports down -2.6% m/m. The trade surplus is set to rise in 2015 for the first year since 2010
- The composite PMI fell -1.8 to a still relatively high 57.7; services fell -2.3 to 60.1; manufacturing PMI slipped -0.2 to 53.6
- National residential property prices rose 1.6% m/m and 7.6% y/y. Dublin prices rose 1.0% m/m and 4.5% y/y. Prices outside Dublin rose 2.1% m/m and 10.7% y/y
- CPI fell -0.2% both m/m and y/y
- Exchequer returns to the end of October remained positive. Following an €800m rise in corporate tax receipts in the month, overall tax receipts were €2.5bn ahead of target year to date. With government spend just €77m above target, the budget deficit target of 2.1% GDP for 2015 which was only set at the time of the October budget looks set to be beaten

Irish Unemployment Rate Continues to Fall



Irish Retail Sales Growth Reduces But Remains Strong



Economy in Focus - Eurozone

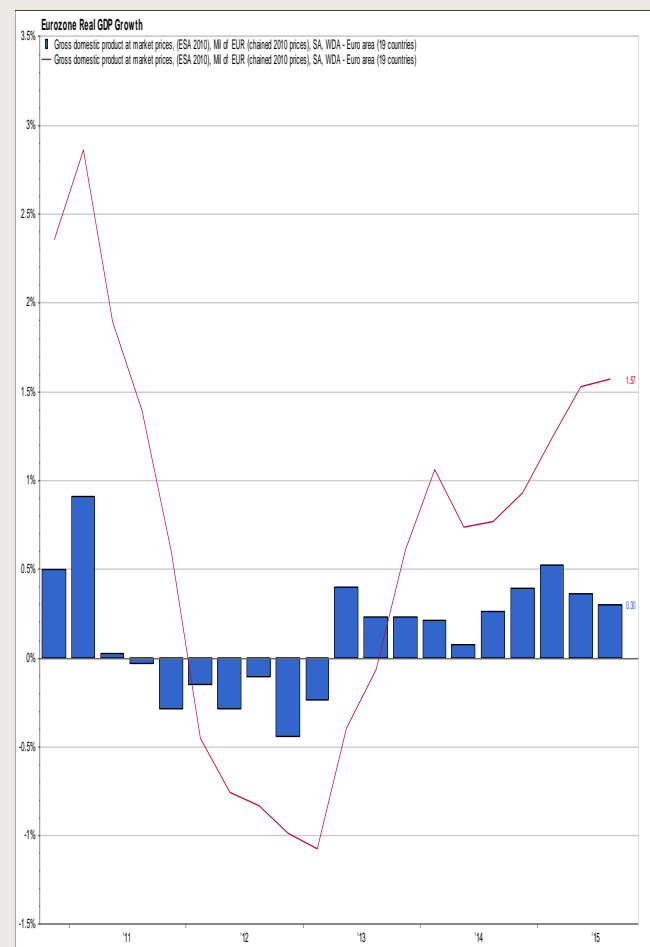
Economy

- Data was mixed but headline PMI data was better
- Eurozone Q3 GDP rose 0.3% q/q, below the 0.4% in Q2
- The composite PMI rose 0.5 to 54.4, a four and a half year high; Sentix business sentiment rose 3.4 to 15.1
- Industrial production fell -0.3% m/m; retail sales fell -0.1% m/m; consumer confidence rose 1.8 to -5.9; M3 money supply growth improved 0.4% to 5.3% y/y
- CPI rose 0.1% y/y; core inflation ex food and energy rose 1.1% y/y
- German Q3 GDP rose 0.3% q/q; the composite PMI rose 0.7 to 54.9; the IFO business climate rose 0.8 to 109.0; retail sales fell -0.4% m/m; consumer confidence fell -0.1 to 9.3; industrial production fell -1.1% m/m; factory orders fell -1.7% m/m
- French Q3 GDP rose 0.3% q/q; the composite PMI fell -1.3 to 51.3 following the Paris terrorist attacks; business confidence rose 1 to 102; industrial production rose 0.1% m/m; consumer spending fell -0.7% m/m
- In Spain the composite PMI rose 0.4 to 55.0; industrial production rose 1.2% y/y; retail sales rose 5.8% y/y
- Italian Q3 GDP rose 0.2% q/q; the composite PMI rose 0.5 to 53.9; industrial production rose 0.2% m/m; retail sales fell -0.1% m/m; consumer confidence rose 1.4 to 118.4

Interest Rates

- ECB rhetoric remained dovish and probably raised expectations regarding the level of easing to be announced in December;
- Risks to inflation and growth were said to be to the downside
- A policy response was said to be needed to get inflation back to the 2% target as soon as possible; It was indicated the size, composition and duration of the current asset purchase programme could be adjusted
- Expectations grew that the current deposit rate of -0.2% would be reduced further with a possible tiering of rates

Eurozone Q3 GDP Growth Slows



Economy in Focus – U.S.

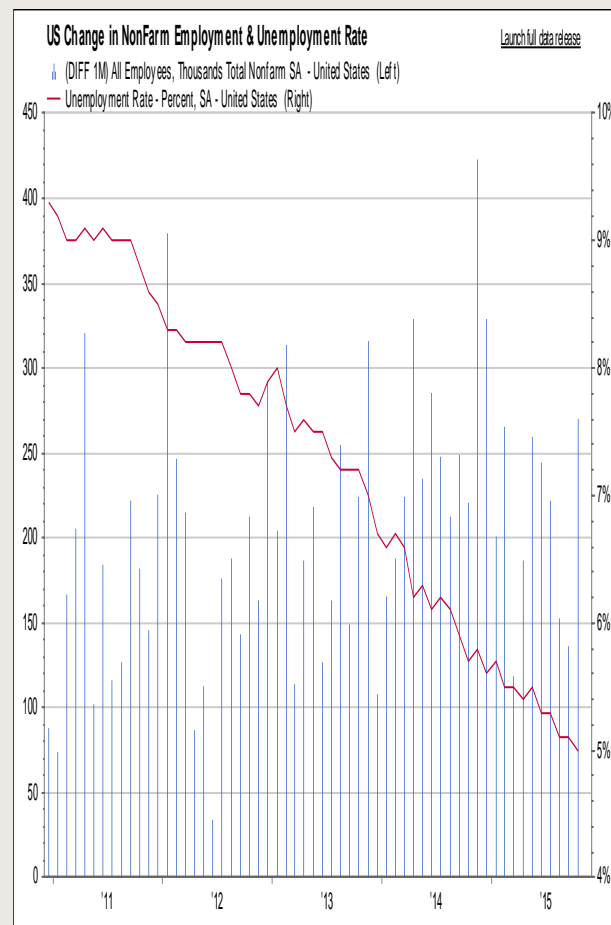
Economy

- U.S. economic data was mixed but some key headline data points surprised positively
- Q3 GDP was revised up to 2.1% annualised from 1.5% due to higher inventories and better fixed investment at 3.4% although consumption was lowered to 3.0%
- ISM manufacturing fell -0.1 to 50.1; services rose 2.2 to 59.1; the composite PMI rose 1.1 to 56.1; small business confidence was unchanged at 96.1
- Non-farm payrolls rose 271,000; unemployment fell 0.1% to 5.0%; average hourly earnings rose 2.5% y/y; industrial production fell -0.2% m/m; factory orders fell -0.8% m/m
- Headline retail sales rose 0.1% m/m; consumer confidence fell -8.7 to 90.4
- CPI rose 0.2% both m/m and y/y; core CPI ex food and energy rose 0.2% m/m and 1.9% y/y
- Durable goods orders rose 3.0% m/m; orders ex transport rose 0.5% m/m; capital goods shipments fell -0.4% m/m
- House prices in the top 20 cities rose 0.6% m/m and 5.1% y/y; housing starts fell -11.0% m/m; building permits rose 4.1% m/m; new home sales rose 10.7% m/m while existing home sales fell -3.4% m/m

Interest Rates

- The Fed minutes showed the majority of members leaning towards a December interest rate rise
- Most members believed conditions to raise rates would be met by the December meeting
- There were references to risks to financial stability from a prolonged period of low rates
- There was general agreement that the pace of rate rises should be gradual and this point clearly communicated
- The probability of a December rate rise rose to 75%

U.S. Labour Market Stronger Than Expected



Economy in Focus - U.K.

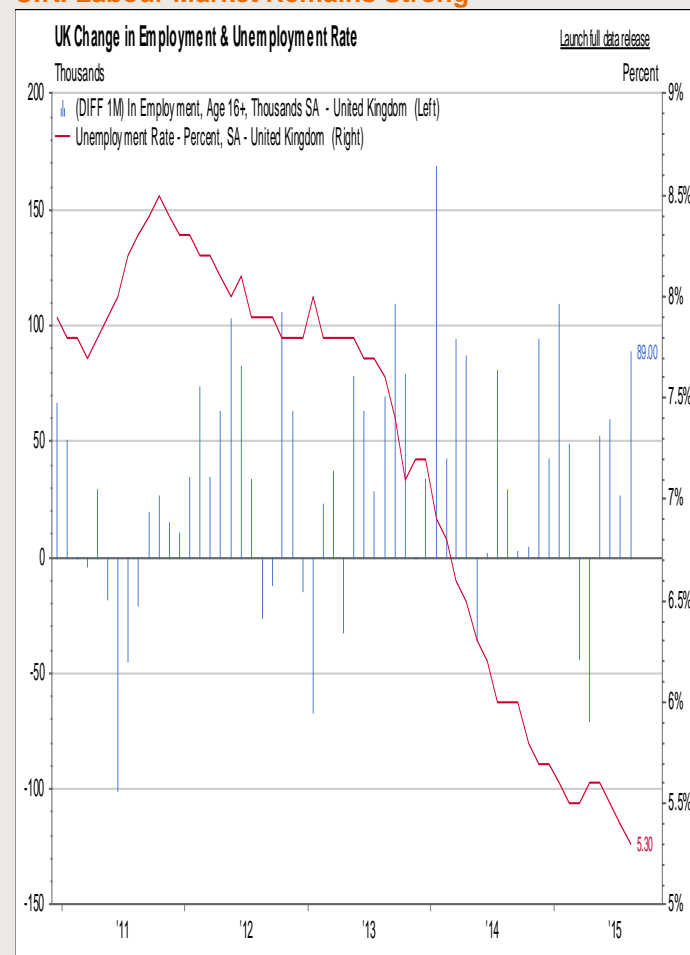
Economy

- U.K. data generally remained firm
- Q3 GDP was confirmed at 0.5% q/q and 2.3% y/y with consumption, investment and government spending revised higher while net trade was revised lower
- The composite PMI rose 1.1 to 55.4; manufacturing was up 4.0 to 55.5; services rose 1.6 to 54.9; construction fell -1.1 to 58.8
- Headline retail sales fell -0.6% m/m following a rugby world cup related boost the previous month but rose 3.8% y/y; consumer confidence fell -1 to 1
- Unemployment fell 0.1 to 5.3%; numbers employed grew 177,000 over three months from 140,000 previously; average weekly earnings ex bonuses rose 2.5% y/y from 2.8% previously
- Industrial production fell -0.2% m/m but rose 1.1% y/y; construction output fell -0.2% m/m and -1.6% y/y
- The Halifax house price index rose 1.1% m/m and 9.7% y/y
- CPI rose 0.1% m/m but was down -0.1% y/y

Interest Rates

- The BoE voted 8:1 to leave policy unchanged, suggesting little urgency to raise rates currently
- Growth forecasts for 2015/16 were lowered to 2.7% and 2.5% respectively although 2017 was increased to 2.7%
- Inflation forecasts for 2015/16 were lowered to 0.1% and 1.2% respectively. 2017/18 inflation rates were forecast at 2.0% and 2.2%
- The BoE indicated it will not begin to sell assets bought under previous QE programmes until base rates are around 2% compared to the current 0.5%. This suggests later sales than previously expected by investors
- The BoE tried to pull forward expectations for the first rate rise from 2017 by forecasting inflation above the 2% target in 2018 on the basis of rates only rising in 2017
- Expectations for the first rate rise temporarily moved in to H2 2016 but moved back out to Q1 2017 by end November as the prospect of a pick up in inflation was seen as low

U.K. Labour Market Remains Strong

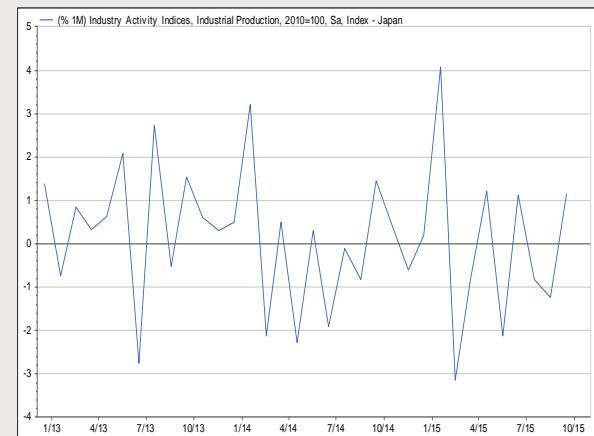


Economy in Focus - Asia

Japanese Economy

- Economic releases generally improved despite the economy entering a technical recession
- Q3 GDP contracted by -0.2% q/q. The mix was better with private domestic sales rising 0.7% q/q; consumption up 0.5% q/q; net trade contributed 0.1% to growth; inventory drawdowns reduced growth by -0.5% in the quarter
- Industrial production rose 1.4% m/m; machine orders rose 7.5% m/m; retail sales rose 1.1% m/m; consumer confidence rose 0.9 to 41.5; the composite PMI rose 1.1 to 52.3; manufacturing PMI rose 0.4 to 52.8; the Economy Watchers survey current reading rose 0.7 to 48.2; the outlook reading was unchanged at 49.1; bank lending growth slowed to 2.5% y/y from 2.6% y/y; the tertiary index fell -0.4% m/m; CPI rose 0.3% y/y; core CPI ex fresh food and energy rose 1.2% y/y
- The Bank of Japan (BoJ) left policy unchanged. The statement noted some weakening in inflation expectations but the BoJ believes inflation will rise in the medium to long term with recent softness in expectations due to temporary weakness in oil prices. The probability of additional easing by the BoJ in the short run has reduced. Wage negotiations in late Q1 2016 will be key in determining if additional stimulus by the BoJ occurs

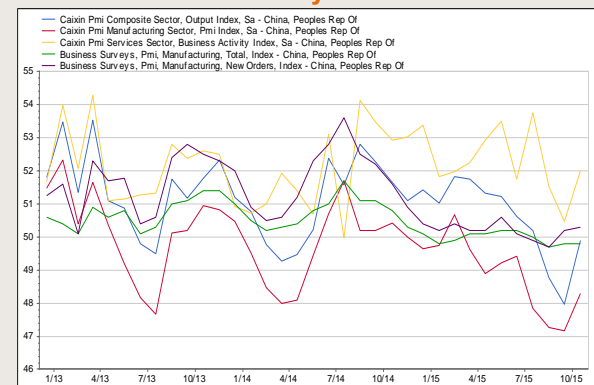
Japanese Industrial Production Rebounds



Chinese Economy

- Chinese data was mixed but continued to show signs of stabilisation. PMI surveys mostly improved and retail sales were better although other hard data was weaker
- Exports fell -6.9% y/y from -3.7%; imports fell -18.8% y/y from -20.4% previously
- Retail sales growth improved to 11.0% y/y from 10.9%; industrial production growth slipped to 5.6% y/y from 5.7%; fixed asset investment growth fell to 10.2% y/y from 10.3%
- Industrial profits fell -4.6% y/y from -0.1% previously
- Monthly new lending fell Rmb 537bn to Rmb 513.6bn
- The Caixin manufacturing PMI rose 1.1 to 48.3; services rose 1.5 to 52.0; the composite PMI rose 1.9 to 49.9. Official manufacturing PMI was unchanged at 49.8; services fell -0.3 to 53.1

Chinese PMI's Generally Better



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